

JOSH GREEN M.D.  
GOVERNOR

SYLVIA LUKE  
LT. GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF TAXATION**

Ka 'Oihana 'Auhau  
P.O. BOX 259

HONOLULU, HAWAII 96809  
PHONE NO: (808) 587-1540  
FAX NO: (808) 587-1560

GARY S. SUGANUMA  
DIRECTOR

KRISTEN M.R. SAKAMOTO  
DEPUTY DIRECTOR

**TESTIMONY OF  
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

**TESTIMONY ON THE FOLLOWING MEASURE:**

S.B. No. 924, S.D.2, Relating to Taxation

**BEFORE THE:**

House Committee on Housing

**DATE:** Wednesday, March 15, 2023

**TIME:** 9:00 a.m.

**LOCATION:** State Capitol, Room 312

Chair Hashimoto, Vice-Chair Aiu, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding S.B. 924, S.D.2, for your consideration.

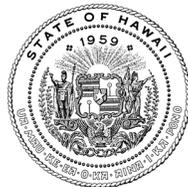
Section 2 of S.B. 924, S.D.2, seeks to eliminate the home mortgage deduction for second homes by amending section 235-2.4, Hawaii Revised Statutes, to exempt Hawaii from conforming to Internal Revenue Code (IRC) sections 163(h)(4)(A)(i)(II) and 163(h)(4)(A)(ii)(II). Section 3 of the bill requires the Department of Budget and Finance, in consultation with the Department of Taxation, to submit a report to the Legislature on the administration of the Act. The bill has a defective effective date of July 1, 2050 and section 2 of the bill applies to taxable years beginning after December 31, 2022.

The Department appreciates that the Senate Committee on Ways and Means amended the bill by deleting the provision requiring a deposit into the dwelling unit revolving fund of the amount gained from making IRC sections 163(h)(4)(A)(i)(II) and 163(h)(4)(A)(ii)(II) non-operative, as the Department would be unable to calculate the actual amount of revenue gained.

The Department notes that it is able to implement section 2 of this bill by the current effective date.

Thank you for the opportunity to provide comments on this measure.

JOSH GREEN, M.D.  
GOVERNOR



LUIS P. SALAVERIA  
DIRECTOR

SABRINA NASIR  
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM  
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAII  
DEPARTMENT OF BUDGET AND FINANCE  
*Ka 'Oihana Mālama Mo'ohelu a Kālā*  
P.O. BOX 150  
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE  
BUDGET, PROGRAM PLANNING AND MANAGEMENT DIVISION  
FINANCIAL ADMINISTRATION DIVISION  
OFFICE OF FEDERAL AWARDS MANAGEMENT

**WRITTEN ONLY**  
TESTIMONY BY LUIS P. SALAVERIA  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
TO THE HOUSE COMMITTEE ON HOUSING  
ON  
SENATE BILL NO. 924, S.D. 2

**March 15, 2023**  
**9:00 a.m.**  
**Room 312 and Videoconference**

RELATING TO TAXATION

The Department of Budget and Finance (B&F) offers comments on this bill.

Senate Bill No. 924, S.D. 2, proposes to eliminate the home mortgage interest deduction for second homes for individual income tax purposes. It also requires B&F, in consultation with the Department of Taxation, to submit a report on administration of the Act to the Legislature for the 2024 through 2028 regular sessions.

B&F notes that there appears to be no need for the report under Section 3 of the bill. S.D. 1 had a provision that required the amount of state revenue gained by eliminating the deduction be deposited into the Rental Housing Revolving Fund. However, that requirement is eliminated in S.D. 2. Consequently, this a straight tax law change that does not appear to warrant a report on its implementation for five years.

Thank you for your consideration of our comments.

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

**SUBJECT:** INCOME, Disallows Home Mortgage Interest Deduction for Second Homes

**BILL NUMBER:** SB 924 SD 2

**INTRODUCED BY:** Senate Committee on Ways and Means

**EXECUTIVE SUMMARY:** Eliminates the home mortgage interest deduction for second homes under Hawai'i income tax law.

**SYNOPSIS:** Amends section 235-2.4, HRS, to eliminate the home mortgage interest deduction for second homes for Hawaii income tax purposes.

**EFFECTIVE DATE:** July 1, 2050, applying to taxable years beginning after December 31, 2022.

**STAFF COMMENTS:** Section 235-3(a), HRS, explains that it is the intent of the Income Tax Law, "in addition to the essential purpose of raising revenue, to conform the income tax law of the State as closely as may be with the Internal Revenue Code in order to simplify the filing of returns and minimize the taxpayer's burdens in complying with the income tax law. The rules and regulations, forms and procedures adopted and established under this chapter shall conform as nearly as possible, and unless there is good reason to the contrary, to the rules and regulations, forms and procedures adopted and established under the Internal Revenue Code."

This bill proposes to decouple from the Internal Revenue Code in disallowing a deduction allowable for federal purposes. The issue before this body is whether the incremental revenue raised by doing so justifies the added compliance costs and complexity.

As an example of this complexity, consider that Hawaii requires certain deduction limits including the so-called Pease limitation in IRC section 68. (The section 68 limitations operate for federal purposes, but at different thresholds; the State thresholds are those that were used by the IRS in calendar year 2009.) IRC section 68 reduces itemized deductions by 3% of the excess of the taxpayer's AGI over the threshold, up to 80% of the amount of itemized deductions otherwise allowable. For Hawaii income tax purposes, HRS section 235-2.4(c) provides that the threshold is \$166,800 for all taxpayers except married taxpayers filing separately, for which it is \$83,400. For higher income taxpayers, against whom this provision is probably directed, the Pease limitation will be considerable. Such taxpayers will probably be claiming other itemized deductions as well, so there will be issues arising as to which deductions were limited by the Pease provision and to what extent. Further, it is highly uncertain whether there would be significant revenue gain from this provision because the mortgage interest deduction may be reduced or denied because of the Pease limitation.

Digested: 3/11/2023

March 15, 2023

**The Honorable Troy N. Hashimoto, Chair**

House Committee on Housing

State Capitol, Conference Room 312 & Videoconference

**RE: Senate Bill 924, SD2, Relating to Taxation**

**HEARING: Wednesday, March 15, 2023, at 9:00 a.m.**

Aloha Chair Hashimoto, Vice Chair Aiu, and Members of the Committee:

My name is Lyndsey Garcia, Director of Advocacy, testifying on behalf of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawai'i and its over 11,000 members. HAR **opposes** Senate Bill 924, SD2, which eliminates the home mortgage interest deduction for second homes under Hawaii income tax law. Effective 7/1/2050.

Introduced in 1913, the Mortgage Interest Deduction (MID) on state and federal income taxes allows homeowners who itemize deductions to deduct mortgage interest for primary and second homes, as well as interest paid on home equity debt. For home mortgage interest, up to \$750,000 of debt can be deducted (or \$1 million for mortgages taken out before December 16, 2017).

The MID promotes the American Dream of homeownership and provides financial security to homeowners. This deduction is vital for maintaining healthy and stable housing markets, as it helps to make mortgage payments more affordable.

Eliminating the MID would negatively impact local families as out-of-state residents do not file income tax in Hawai'i. In today's real estate market, more homeowners are purchasing second homes to support their families, such as elderly parents or adult children who cannot afford their own homes. For this reason, the MID for second homes is important for individuals to invest in their retirement or support their families with Hawaii's high cost of living and housing.

Furthermore, it is unclear whether there would be a significant revenue gain from eliminating the MID for second homes in Hawai'i. Decoupling this deduction from the Internal Revenue Code could lead to unnecessary complexity and uncertainty.

For the foregoing reasons, Hawai'i Association of REALTORS® opposes this measure. Mahalo for the opportunity to testify.

**SB-924-SD-2**

Submitted on: 3/12/2023 11:07:52 AM

Testimony for HSG on 3/15/2023 9:00:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Testify</b>
Ellen Godbey Carson	Individual	Support	Written Testimony Only

Comments:

While I write as an individual, I have served as President and director of Institute for Human Services, and advocate for Faith Action for Community Equity Housing Now.

We are in a dire crisis of affordable housing and homelessness. The existing second mortgage deduction creates a tax policy that exacerbates our existing problems rather than helping us. We need more incentives to help residents purchase their first home or have a longterm rental in Hawaii, rather than encouraging ownership of a second home. Each deduction provided by the state reduces revenues available to address community needs.

Removing the deduction of mortgage interest for a second home, will help reduce the number of vacant homes (vacation rentals, vacation homes, etc) in our state while generating revenues for the State to expand access to affordable housing.

Thank you for considering my testimony.

Ellen Godbey Carson

**SB-924-SD-2**

Submitted on: 3/13/2023 10:07:42 AM

Testimony for HSG on 3/15/2023 9:00:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Testify</b>
Will Caron	Individual	Support	Written Testimony Only

Comments:

Please support SB924 SD2.

TO: Members of the Committee on Housing

FROM: Natalie Iwasa, CPA, CFE  
808-395-3233

HEARING: 9 a.m. Wednesday, March 15, 2023

SUBJECT: SB 924, SD2 - Eliminates Home Mortgage Interest Deduction for Second Homes - **OPPOSED**

Aloha Chair Hashimoto and Committee Members,

Thank you for allowing me the opportunity to provide testimony on SB 924, SD2, which would remove the deduction for mortgage interest on second homes on individual returns.

Anyone fortunate enough to have a second home likely did so with the knowledge that the mortgage interest would be deductible and therefore relies on the deduction. Bills such as this often have unintended consequences.

Please vote "no" on SB 924, SD1.